

ECONOMIC DEVELOPMENT

I. OVERVIEW

The Economic Development program is the first of eleven major programs in the statewide program structure. The overall objective of the Economic Development program is to assist in maintaining the State's economy in a strong and competitive condition by providing policies, operations, facilities, services, counseling, and information so as to achieve appropriate rates of growth, high levels of employment, reasonable returns on investments, and steady gains in real personal incomes in a balanced fashion in all sectors of the economy and areas of the State.

The program consists of eight Level II programs: Business Development; Tourism; Agriculture; Fisheries and Resource Enhancement; Technology; Water and Land Development; Special Community Development; and Hawaii Housing Finance and Development Corporation. These include a total of 16 lowest-level programs in the Multi-Year Program and Financial Plan for the Budget and Planning Period 2007-2013.

The following organizational entities are involved in this program: Department of Agriculture; Department of Business, Economic Development and Tourism (DBEDT); and Department of Land and Natural Resources (DLNR).

Important program relationships exist between the Economic Development program and the following private and governmental agencies:

- (1) Federal
 - Department of Agriculture
 - Department of Commerce
 - U.S. Export Assistance Center-Hawaii
 - Foreign-Trade Zones Board
 - Export Import Bank of the United States
 - Department of Defense
 - Defense Advanced Research Projects Agency
 - Office of Naval Research
 - U.S. Air Force
 - Department of Energy
 - Department of Housing and Urban Development

- Department of Interior
 - Department of Transportation
 - Department of Homeland Security
 - Citizen Immigration Services
 - U.S. Customs and Border Protection
 - Department of State-Consular Offices in various Asian countries
- (2) Counties
- Office of the Mayor
 - County Councils
 - Building departments
 - Planning departments
 - Public works departments
 - Transportation departments
 - Economic development offices
 - Police departments
 - Neighborhood boards
- (3) Private
- Business and Commerce associations
 - Chambers of Commerce
 - Economic Development Boards
 - American Immigration Lawyers Association
 - Hawaii Hotel Association
 - Hawaii Visitors and Convention Bureau
 - Visitor Industry Professional Associations
 - Waikiki Improvement Association
 - SMG (Convention Center)
 - Maui High Performance Computing Center (MHPCC)
 - Hawaii Science & Technology Council
 - Colleges and Universities
- (4) International
- Asia Productivity Organization
 - Asian Development Bank
 - World Trade Center Association
 - Pacific Basin Economic Council
 - Pacific Asian Travel Association
 - Foreign consular offices located in Honolulu
 - East West Center
 - Pacific and Asian Affairs Council
 - District Export Council

Some of the more significant activities carried out within the overall Economic Development program are: developing and implementing programs to attract new, job-creating businesses

and investment; promoting international trade; providing advice and counseling to businesses; increasing competitiveness of businesses engaged in importing and exporting activities; facilitating development of industries centered on life sciences, tourism consulting, education and training, energy, environmental, ocean and recyclable resource-based products and services; carrying out the State's tourism program; inspecting and grading agricultural products; sponsoring applied research in agriculture, aquaculture and biotechnology; providing industry and product promotion; inspecting horticultural and animal imports; planning for technology-based economic development, developing technology projects, and operating technology or innovation centers; stimulating economic development of specific community districts; promoting growth of the film, video and digital media production industry; and promoting the diverse artistic and cultural resources of Hawaii.

Table I-1 shows the operating and capital investment costs and selected measures of effectiveness of the Economic Development program.

TABLE I-1

INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY

ECONOMIC DEVELOPMENT

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
					2010-11	2011-12	2012-13	
A. <u>Costs of the Recommended Program</u>^{A/}								
Capital Investment	12.3	30.0	43.5	21.5	5.0	3.5	.5	.5
Operating	159.9	190.6	288.9	289.3	289.2	289.2	289.2	289.2
Total ^{B/}	172.2	220.6	332.4	310.8	294.2	292.7	289.7	289.7
B. <u>Selective Measures of Effectiveness/ Activity</u>								
1. Gross State Product (2000 Constant \$ in Millions)	45,695	46,822	49,192	50,324	51,531	52,768	53,982	55,223
2. Real Personal Income (2000 Constant \$ in Millions)	39,634	40,576	41,518	42,223	43,349	43,438	44,310	44,408
3. Unemployment Rate (% , Tenths)	2.8	3.1	3.2	3.2	3.3	3.4	3.5	3.5
4. Total Employment (Thousands)	621	627	633	639	645	651	658	664
5. Gross State Product (Current \$ in Millions)	55,856	59,221	62,299	65,444	68,389	71,466	74,611	77,874
6. Personal Income (Current \$ in Millions)	45,420	46,227	51,244	53,909	56,656	59,548	62,525	65,651

A/ Expenditures in millions of dollars from all funds.

B/ May reflect rounding differences.

II. COSTS AND EFFECTIVENESS OF THE RECOMMENDED PROGRAMS

BUSINESS DEVELOPMENT

The objective of the Level II program, Business Development, is to facilitate growth, diversification, and long-term stability of the State's economy by promoting exports of Hawaii's products and services and attracting business and investment. Four programs, Strategic Marketing and Support, (BED 100); Creative Industries Division, (BED 105); Foreign Trade Zone, (BED 107); and General Support for Economic Development, (BED 142) administered by DBEDT comprise this Level II program.

The Strategic Marketing and Support Division (SMSD) promotes industry development and economic diversification by supporting existing and emerging industries through attraction of new business and investment, increase in exports of Hawaii products and services, and expansion of Hawaii's participation in global trade and commerce. Working collaboratively with a network of public and private sector partners, SMSD plans and implements programs to: 1) encourage growth of existing and emerging industries by opening and developing domestic and international markets for Hawaii firms; 2) attract new business and investment, particularly knowledge-based and environmentally compatible industries to grow and diversify Hawaii's economy; 3) market Hawaii as a serious place to do business; 4) create new jobs, particularly those that require high-skills to support knowledge-based industries; 5) increase sales and exports of Hawaii products and professional services; 6) administer and promote Hawaii's sister-state relationships to facilitate economic development objectives; and 7) collaborate with the counties, private business, and economic development organizations to support the State's economic development objectives; and 8) support and assist small businesses and community-based enterprises.

Three programs comprise the major activities of the Level III program, Strategic Marketing and Support (BED 100):

- 1) Service Trade; 2) Investment and Business Analysis; and
- 3) Business and Community Assistance.

The Service Trade Branch (STB) plans and implements initiatives to increase export and growth of Hawaii's professional services in industries such as life sciences, including medical and health care services, and health and

wellness tourism; education-related services, including edu-tourism; infrastructure-related services, including resort development, architectural, engineering, planning and environmental services; and technology-related services. STB activities include: 1) opening and expanding markets for Hawaii's professional service providers by creating business partnership and matchmaking opportunities locally and abroad; 2) collaborating with the counties, private business, and economic development organizations to support the State's economic development objectives; and 3) leading coordination of the public-private development and marketing of Hawaii's business brand.

The Investment and Business Analysis Branch (IBAB) develops, plans and implements programs to attract investment and businesses to Hawaii. IBAB provides information and facilitates opportunities for businesses considering investing in or expanding to Hawaii. Their activities include: 1) operating representative offices to provide stable linkages with selected regions to generate and follow-up on business opportunities; 2) establishing Hawaii as a significant resource for economies in transition; 3) facilitating matches and strategic alliances for investment into Hawaii's firms in key areas; and 4) administering and promoting Hawaii's sister-state relationships to facilitate economic development objectives.

The Business and Community Assistance Branch (BCAB) consists of four Level III programs.

1. The Business Advocate which reviews and analyzes proposed State agency rules and business-related legislation, provides staff support for the Small Business Regulatory Review Board, and evaluates and attempts to resolve issues reported by the small business community.
2. The Community-Based Economic Development (CBED) program is a grant and technical assistance program which assists in creation and development of non-profit, locally controlled organizations that conduct economic development activities in keeping with their values and resources. Establishing community institutions is a long-term strategy that will result in stronger, self-sustaining communities. This is especially important for the State's rural areas transitioning from sugar and pineapple production to alternative economic development.

DBEDT also administers the Disaster Loan program which assists businesses and individuals who suffer damage in a State-declared natural disaster.

3. The Enterprise Zones program is a public-private partnership that stimulates business and job creation via tax and other incentives in areas of the state nominated by the counties. Eligible businesses include manufacturers, farmers, wholesalers, aviation and maritime repair firms, data systems and telecommunications companies, and medical research and international training businesses.

Hawaii has a thriving and vital cultural life with a creative economy that generates income, jobs and tax revenues. This aspect of Hawaii's general economy supports a highly skilled work force that through innovation, artistic or applied design-based effort, contributes to the advancement of Hawaii's general economy and positively affects the overall quality of life within the State.

The Creative Industries Division (CID) focuses on the sectors of Hawaii's economy that are more aptly called Hawaii's Creative Industries. These industry sectors impact Hawaii in many ways as they cross over many disciplines, industries, cultures and communities. They represent a cluster composed of for-profit components and non-profit organizations. Both groups employ many people and imbed a sense of multi-cultural uniqueness that we call Hawaii. In its broadest definition, Creative Industries encompass economic activity of a wide spectrum of commercial businesses, individuals, cultural enterprises, non-profit institutions and government agencies that directly or indirectly produce goods and/or provide services that are rooted in, or generated by artistry, design, aesthetic value or cultural enterprise.

In Hawaii, Creative Industries employ 28,592 individuals, representing 5% of all jobs in the State. This work force earned \$1.08 billion and wages averaged \$42 K which is 16% higher than the average wage earner in the State. In total, the value of output from this sector equals \$2.23 billion or 2.7% of Hawaii's GDP.

Hawaii's Creative Industries include both established and growth industries:

- Film & Digital Media (broadcast media, cable, radio, television, film production, digital media, game production, advertising).
- Visual Arts (painting, drawing, print making, sculpture, folk art, galleries, auction houses).
- Performing Arts (theatre, music, dance).
- Applied Arts (architecture, marketing, interior design, industrial design, fashion design, graphic/commercial design, culinary arts, web design, crafts).
- Literary Arts (writing, publishing).
- Advocacy and Support (arts education, cultural councils, funders).
- Heritage and Preservation (museums, historic sites, heritage corridors).
- Ethnic Cultural Activities (festivals, parades).
- Cultural Tourism Activities (cultural exchange, cultural events).

It is the focus of CID to work with developing industries with the best growth potential for Hawaii.

Two programs comprise the major activities of the Level III program, Creative Industries Division (BED 105 CI): 1) Film Industry Branch (FIB); and 2) Arts & Culture Development Branch.

The FIB: 1) in coordination with county film commissioners, develops and administers a statewide program to encourage motion picture and television production companies and studios to use Hawaii as a production site for feature films, television films and programs, television commercials, and other filming activities; 2) develops and maintains contacts with representatives of the film industry and others involved in related activities to keep the industry apprised of local resources and development of new resources including locations, financial support, equipment and human resources; 3) provides assistance to producers in obtaining film locations, equipment, facilities, permits and clearances, and other requirements for production of films and photography shoots; 4) administers a statewide, one-stop film permit system, through Memorandums of Agreements (MOA) with other State departments, to service productions filming on state lands and property; 5) conducts or arranges for research regarding the film industry such as developing data to identify people, firms and other resources available to support production and disseminates research findings and

information; 6) prepares and administers State contracts for development and promotion of the film industry; 7) identifies and analyzes major public problems and issues involving the film industry and recommends appropriate State actions through development of legislative proposals and policies; 8) works closely with committees, task forces, community groups, and industry representatives in addressing problems and issues involving the film industry and in addressing development and promotion of the film industry in Hawaii; 9) markets, administers and manages the Hawaii Film Studio for production of television series, motion pictures and commercials, and oversees design, construction, and operation of the facility, as well as develops materials to promote the facility; 10) markets Hawaii as an ideal filming destination, including maintaining and developing a Web site, blog, press kit, advertisements, videos, and other promotional materials; participating in industry trade shows and film festivals; and publicizing film industry developments; 11) manages film tax incentive program, including answering all related inquiries, processing tax incentive applications, coordinating with the State Department of Taxation to administer the credit; and, 12) coordinates programs to develop the local filmmaking community, including organizing educational seminars and maintaining a blog to keep the local industry informed of upcoming opportunities and events.

The Arts and Culture Development Branch (ACDB): 1) directs formulation and implementation of a statewide program to assist Hawaii businesses in developing and expanding domestic and foreign markets for Hawaii's arts and culture products and services and other Hawaii-made products whenever possible; 2) assumes role of facilitator for export - and visitor-related components of Hawaii's arts and culture industry; 3) acts as a statewide liaison to identify and support economic development opportunities for arts and culture organizations; 4) attracts national, regional, and international arts and culture events with potential for positive net export and visitor-related benefits; 5) arranges and conducts research regarding baseline data on the local arts and culture industry and its relation to export-earning sectors; 6) prepares and administers State contracts for development and promotion of Hawaii's arts and culture industry; and 7) identifies and analyzes major challenges and issues involving the arts and culture industry and works closely with industry representatives and recommends appropriate State actions through development of legislative proposals and policies.

The Foreign-Trade Zone (FTZ) Division administers the federal grant, issued in 1965 to the State of Hawaii, for the Foreign-Trade Zone No. 9 (FTZ9). There are currently 14 sites on the islands of Oahu, Maui, and Hawaii that have received a foreign-trade zone designation of which three general-purpose zone and four special-purpose subzone sites are activated. As designated grantee and owner/operator of some sites, the FTZ Division is responsible for ensuring that U.S. Customs and Foreign-Trade Zones Board regulations are followed at these sites.

The FTZ Division markets the FTZ program and provides advice and direction to potential users of these facilities. In addition, the FTZ Division operates a general-purpose zone at Pier 2. Any company that imports and exports merchandise can take advantage of the benefits of the FTZ program at this incubation-type, shared-use facility. This prime waterfront location is adjacent to one of the State's main container cargo terminals, the new \$300 million University of Hawaii Kakaako Life Sciences Park, the new \$25 million cruise terminal facility and the vibrant downtown business district. This seven-acre site provides over 500,000 cubic feet of warehouse storage.

Incubator office space is also available for rent at the Pier 2 site. There is currently over 25,000 square feet of office space operated by FTZ9 at Pier 2. We recently added space at this facility to "re-brand" our image to attract organizations that develop and facilitate small business development in international trade and house trade-related non-profit organizations. We believe that by concentrating these international trade resources in one location, we will increase business formation, improve coordination in Hawaii's international trade community, and ultimately increase the amount of international trading activity in Hawaii.

Use of the FTZ program has an impact on levels of international trade in Hawaii and helps Hawaii companies compete in national and international markets. In FY 06, 391 firms used the FTZ9, handling over \$8.66 billion of merchandise using FTZ procedures. Firms using the FTZ program report a direct employment of 1,570 employees attributable in part to use of the Zone. Exports from activated FTZ sites totaled \$744 million.

Key indicators of the value of the FTZ program to Hawaii's economy over the past five years in terms of employment, merchandise handled (received plus forwarded), and exports as a percentage of foreign merchandise received are shown in the table below.

Foreign-Trade Zone9 Program Key Indicators

	2002	2003	2004	2005	2006
Employment (direct)	1,548	1,457	1,370	1,201	1,570
Total merchandise handled, in + out (\$ million)	3,086	3,584	4,763	6,474	8,662
Pier 2 merchandise handled, in + out (\$ million)	60.8	78.1	77.8	62.4	58.3
Exports (\$ million)	303.9	336.2	432.4	632.0	744.2
Capital improvements (\$ millions)	34.8	45.2	21.0	27.8	29.75
Exports as percent of foreign merchandise received	29.0	35.2	30.8	28.3	24.29

More information about the FTZ9 can be found at www.ftz9.org.

Table II-1 shows the operating and capital investment costs of the Business Development sub-program.

TABLE II-1

INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
BUSINESS DEVELOPMENT

	F i s c a l Y e a r s							
	Actual	Est.	Rec.	Rec.	P r o j e c t e d			
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	.5	.2	...	...	...	...	...	...
Operating	7.1	9.5	9.7	9.7	9.7	9.7	9.7	9.7
Total ^{B/}	7.6	9.7	9.7	9.7	9.7	9.7	9.7	9.7

A/ Expenditures in millions of dollars from all funds.

B/ May reflect rounding differences.

(HTDC)

B. Selected Measures of Effectiveness/
Activity

1. Percent Annual Increase in GSP	6.0	5.2	5.0	5.0	4.5	4.4	4.4	4.4
2. Number of New Jobs Created Per Annum	3,529	6,210	6,272	5,668	6,395	6,449	6,514	6,579

TOURISM

The objective of the Level II program, Tourism, is to proactively plan and support development and promotion of diversified events, attractions, and services for leisure and business travelers that complement Hawaii's traditional resort product, enhance brand identity, assist in overall economic diversification, and provide high-quality visitor experiences while sustaining Hawaii's natural and cultural resources, community values and residents' quality of life.

In 1998, the Hawaii Tourism Authority (HTA) was established by Act 156, SLH 1998, as the lead State agency and advocate for Hawaii's visitor industry. HTA is responsible for setting tourism policy and direction from a statewide perspective. Act 156 also established the Tourism Special Fund which receives a set percentage of transient accommodations tax collections that is assessed on hotels, vacation rentals and other accommodations. The Tourism Special Fund is used by the HTA to market and develop the State's tourism industry. The HTA is administratively attached to the State DBEDT.

One of the HTA's mandates is to create a vision and develop a long-range plan for tourism in Hawaii. As such, in October 2004, using research from tourism studies and input solicited from the community, industry and other government entities, the HTA completed the "*Hawaii Tourism Strategic Plan: 2005-2015*" (State TSP). The State TSP is a ten-year plan for the State that:

- Outlines a shared vision for Hawaii tourism through the year 2015 by Hawaii's tourism stakeholders - the government entities, private industry, residents and visitors who are involved in tourism.
- Provides a roadmap - strategic directions, specific goals and responsible and supporting partners - for achieving that vision.

The State TSP is comprised of nine strategic initiatives: Access; Communications and Outreach; Hawaiian Culture; Marketing; Natural Resources; Research and Planning; Safety and Security; Tourism Product Development; and Workforce Development. While the State TSP does not identify the HTA as the lead agency for all of the nine initiatives, it does provide the framework under which the HTA has developed its agency action plan for Calendar Year (CY) 2006. This action

plan details the HTA's specific activities and resource allocations within each of the nine initiatives for the year, and is described in the following section.

- **Access** includes airport and harbors greetings program, airlift development program and advocacy of airlift and other transportation issues.
- **Communications and Outreach** includes efforts to communicate and educate tourism stakeholders about HTA programs, State tourism policy and industry activities through media relations and publicity efforts, special events like the Hawaii Tourism Conference, Visitor Industry Campaigns, HTA Web Sites, informational collateral (e.g., press releases, e-mail bulletins, speeches and reports) and outreach efforts (e.g., community meetings and presentations).
- **Hawaiian Culture** includes the development of a Hawaiian Culture Program with the support of HTA's Hawaiian Cultural Program Advisory Council, implementation of the Keep It Hawaii Program, support for Native Hawaiian signature events and a partnership with the Native Hawaiian Hospitality Association.
- **Marketing** includes leisure marketing programs, business marketing programs, sports marketing programs, and other efforts. As part of the business marketing efforts, the HTA will continue to implement activities that will increase the effectiveness of the marketing of the Hawaii Convention Center, in the area of meetings and conventions.
- **Natural Resource** includes the implementation of HTA's Natural Resource Program.
- **Research and Planning** includes various projects such as the marketing effectiveness accountability study, implementation of county tourism strategic plans and the resident sentiment survey.
- **Safety and Security** includes the visitor assistance program and crime prevention efforts.
- **Tourism Product Development** includes the Product Enrichment Program which supports community-based tourism projects in all counties; Major Festivals Program which supports

various festivals throughout the State; and other product development activities around the State.

- **Workforce Development** includes support for a travel industry career training program in Hawaii's high schools and a partnership with the University of Hawaii Travel Industry Management School for a strategic workforce master plan.

In addition to the above, the HTA also has responsibility for operating, maintaining and marketing the Hawaii Convention Center. Specifically, the HTA's efforts are to ensure that the center is operated as a world-class facility and that it attracts the kind of business meetings that contribute to revenue growth for the State. For CY 2006, the HTA, worked with SMG, the Center's contracted operator, on the following:

- Increasing the effectiveness of marketing efforts to promote Hawaii as a preferred destination for business tourism (to attend a meeting, convention, or incentive conference).
- Quality servicing of clientele through the facility's operating manager.
- Continuing community relations efforts.

Table II-2 shows the operating and capital investment costs and selected measures of effectiveness for the Tourism sub-program.

TABLE II-2
INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
TOURISM

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
						2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	...	2.0	...	...	...	...	...	...
Operating	111.2	123.3	137.0	142.0	142.0	142.0	142.0	142.0
Total ^{B/}	111.2	125.3	137.0	142.0	142.0	142.0	142.0	142.0
<hr/>								
A/ Expenditures in millions of dollars from all funds.								
B/ May reflect rounding differences.								
B. <u>Selective Measures of Effectiveness/ Activity</u>								
1. Visitors Expenditures (\$ Billions)	11.6	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2. Visitor-Days (Millions of Days)	66.6	68.1	68.1	68.1	68.1	68.1	68.1	68.1
3. Total Visitors Arrivals (M)	7.1	7.4	7.4	7.4	7.4	7.4	7.4	7.4

AGRICULTURE

Agriculture

The objective of this Level II program is to promote the conservation, development, and utilization of agricultural resources in the State. More specifically, it is the program's goal to develop an industry in which prime agricultural lands are fully utilized in profitable diversified crop and livestock production; opportunities for export competition and import substitution are maximized; and agribusinesses involved in the production, processing, distribution and marketing of agricultural commodities are competitive in a changing global market.

The mission of supporting an expanding agricultural sector is essential to the overall viability of the State's economy. Agriculture in Hawaii currently generates over one-half billion dollars in farm-gate revenues annually and provides thousands of jobs statewide. Recent findings indicate that when the economic value of other agriculture-related industries is considered, the total value of agriculture jumps to nearly \$1.94 billion a year and provides approximately 38,000 jobs statewide. In addition, Hawaii agriculture contributes to a desired physical environment and promotes economic as well as social well-being in rural districts across the State.

The Agriculture program is the Level II program that covers the following functions: financial assistance, plant and animal disease control, forestry, quality and price assurance, marketing, agricultural resources, agribusiness development, research, and aquaculture development.

Some of the more significant organizational relationships that affect the program are:

1. Federal

United States Department of Agriculture (USDA)

United States Department of Commerce (USDC)

Plant and Animal Quarantine - Animal and Plant Health
Inspection Service, Department of Agriculture

Animal Disease Control - USDA - Veterinary Services

Bureau of Reclamation, United States Department of the Interior

Marketing - Agricultural marketing Service, Western United States Agricultural Trade Association, Foreign Agricultural Service, National Agricultural Statistics Reporting Service

Meat Inspection - Food Safety Inspection Service

U.S. Forest Service (Institute of Pacific Islands Forestry)

2. State

University of Hawaii College of Tropical Agriculture and Human Resources
UH Cooperative Extension Service, and UH Sea Grant College Program

Resource Development - DLNR

Marketing - DBEDT

3. County

Planning and Research Departments

Economic Development Programs

4. Private

Agribusinesses and Industry Organizations such as the Hawaii Farm Bureau Federation and the Hawaii Aquaculture Association

Banks and other lending institutions

Environmental groups

The State, in keeping with mandate of the Hawaii constitution, has made a strong commitment to agriculture. This commitment includes developing a greater degree of self-sufficiency for certain commodities and expanding overseas markets for Hawaii products.

The program will carry out this mandate by 1) continuing to serve as an advocate and leader for agriculture; 2) coordinating and facilitating public and private sector alliances; 3) providing services essential to industry growth; and 4) developing new initiatives designed to stimulate agricultural development.

Forest Resource Management and Development

This Program (LNR 172) falls within the statewide Economic Development Program. The program's overall objective is to strengthen the State's economic opportunities through forest resource management to improve and assist in the sustainable production of forest products and services from Forest Reserves and other public and private lands, and to promote resource restoration and conservation through outreach and education.

Specific program objectives include: (1) plan, research and implement reforestation and management of degraded and/or disturbed State lands for commercial forest resource production, native resource protection, watershed value enhancement, and other forest purposes; (2) plan and administer commercial forest management activities on State land, which includes resource inventory and forest product sale administration; (3) implement State and Federal technical forestry assistance and grant programs to provide support for forest management on public and private lands and to processors of forest products; (4) support a sustainable forest industry that maintains and creates jobs while generating revenues for managing public resources; (5) maintain and enhance forest reserve resources for cultural gathering and uses; (6) provide continuous public education regarding the diversity and importance of forest products, ecosystem services and natural resource values; (7) develop mechanisms by which the division obtains revenue from ecotourism, camping, cabin fees, production of water, non-timber forest products and other ecosystem services; (8) enhance forest reserve infrastructure maintenance, hazard reduction and timber salvage opportunities through the commercial harvest permit system; (9) operate the Central Tree Nursery in Kamuela and district nurseries for distribution of high quality tree seedlings for reforestation, special use plantings such as windbreaks and propagation of native plants for out planting; (10) compile maps and statistics on the

extent and condition of forests throughout the State; and
(11) foster the development of professional forest management plans for public and private lands.

This program typically cooperates with the following State departments on technical matters and for field implementation of program objectives: DBEDT; Hawaiian Home Lands; Agriculture; Health; and Education, as well as the Office of Hawaiian Affairs.

Important relationships via program implementation include:
(1) landowner assistance programs to reforest private lands that are expanding under the Forest Stewardship and CREP grant programs; (2) the Federal Forest Legacy Program that has a focus on acquisition of land or conservation easements for protecting and conserving threatened natural resources of Hawaii, including important additions to Hawaii's Forest Reserve System; (3) the Federal Urban and Community Forestry Program that improves the health and viability of trees in Hawaiian communities through educational programs, financial support via cost-share grants, technical training, Arbor Day promotion, and partnerships with the public and private sectors, community groups and not-for-profit organizations; (4) cultural and educational aspects relating to sound management and stewardship of Hawaii's natural resources; these programs include cooperation with other resource management agencies and organizations as well as Department of Health students and the general public; (5) direct support of forest industry development by the private sector in Hawaii through issuance of permits or licenses with selected partners or companies, and providing timber and other forest product resources from commercial public land areas, and promoting economic development and resource self-sufficiency in Hawaii.

Significant activities include: (1) protect and manage Hawaii's Forest Reserve System for watershed values, invasive species control, and commercial, recreational and cultural uses via direct management as well as key partnerships; (2) work with the Office of Hawaiian Affairs to begin forest management and restoration on the newly acquired Wao Kele O Puna Forest Reserve; (3) utilize revenue from sand mining at the Mana Coastal Forest Reserve to implement and oversee development of the 130-acre Mana wetland complex, providing habitat for endangered waterbirds, and recreational opportunity for public; (4) implement the Waiakea management plan; (5) implement and manage commercial timber sales via program permits or licenses; (6) implement koa reforestation

projects that include recovery and salvage of dead and downed koa timber resources, fencing improvements, and site scarification to stimulate natural koa regeneration; (7) promote and process Forest Reserve additions on Oahu, Hawaii and Kauai; (8) develop and implement a Kapapala Koa Canoe Management Area plan that addresses long-term management of native forest for sustainable production of koa canoe logs and cultural and educational aspects of resource stewardship relating to growing and harvesting koa canoe logs and other important native forest products and values; (9) implement commercial forestry and private landowner and community assistance programs, including initiation of the State cost-shared Federal Conservation Reserve Enhancement Program that will provide up to \$2.5 Million dollars per year in support to Hawaii ranchers and farmers to implement forest and stream restoration projects on private lands; (10) secure land or conservation easements to protect and conserve threatened natural resources of Hawaii through the Federal Forest Legacy Program.

Through anticipated increases in Conveyance Tax and forest product revenues, the program seeks to provide enhanced capacity to: (1) implement watershed and forest reserve protection and management efforts, including continued support invasive species prevention, control, research, and public outreach efforts; (2) support forest industry development in Hawaii to improve resource self-sufficiency of the State and concurrently program funding self-reliance; (3) provide assistance to private landowners to improve forest habitat and water quality and by offering financial incentives, cost-share and rental payments; (4) secure titles or conservation easements for key land areas whose resources are under threat; and (5) support cultural and educational aspects of natural resource management.

Table II-3 shows the operating and capital investment costs and selected measures of effectiveness for the Agriculture sub-program.

TABLE II-3

INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY

AGRICULTURE

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
						2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	6.6	2.2	20.2	3.7	3.5	3.5	.5	.5
Operating	22.9	27.2	42.6	40.0	40.0	40.0	40.0	40.0
Total ^{B/}	29.5	29.4	62.8	43.7	43.5	43.5	40.5	40.5
<hr/>								
A/ Expenditures in millions of dollars from all funds.								
B/ May reflect rounding differences.								
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Diversified AGR Farm Value (\$M)	438.1	453.9	470.2	487.1	504.7	522.8	541.6	561.1
2. Total AGR Farm Value	600.4	613.3	597.6	613.1	629.7	647.3	666.1	686.0

Fisheries and Resource Enhancement

LNR 153 (recently consolidated with the recreational fisheries program, LNR 805 to form a singular program).

Program objectives are to support and assist in the wise use of and the long-term sustainability of Hawaii's fishery resources and other aquatic life for the benefit of Hawaii's people and its visitors through research, outreach, collaboration, and management, to coordinate with other resource management agencies, to enhance or improve existing resources through stock enhancement and culture research and development; thereby, providing opportunities for fishing and seafood markets, by providing opportunities in managed freshwater and marine areas for recreational fishing, diving, photography, or nature study, by providing opportunities and facilities for skill development, all through effective resource management, appropriate regulatory frameworks, outreach, and collaboration.

Important program relationships: related to County zoning for shoreline use, other State authorities to manage surface (fresh) water bodies and nearshore water quality, Federal agencies that have similar objectives of marine and freshwater aquatic resources conservation, and Federal natural resources agencies that provide funding to assist in attaining mutual objectives.

Significant activities include licensing and monitoring of Hawaii's commercial fishing industry, providing for recreational public fishing areas, culture and release of important game and food fishes, school and public education, and ecological research including alien species impacts.

Important external developments affecting the program: Protected species concerns have the capability to greatly impact commercial and recreational fishery activity. Greater interests by communities to manage local resources are promoting more community-based management initiatives. A greater federal presence will influence State focus and direction. Alien species concerns will trigger greater regulatory measures.

Significant measures of effectiveness: A statewide commercial marine licensing program that processes license applications, processes reported landings information that is used by State and federal resources managers to manage fisheries, without public complaint or lapse in timely data utilization. Amended or new Hawaii Administrative Rules to enhance fishing experience or to protect resources.

Table II-4 shows the operating and capital investment costs and selected measures of effectiveness for the Fisheries and Resource Enhancement sub-program.

TABLE II-4

INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
FISHERIES AND RESOURCE ENHANCEMENT

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
						2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program^{A/}</u>								
Capital Investment	...	...	...	.3	...	...	...	...
Operating	2.7	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Total ^{B/}	2.7	2.9	2.9	3.2	2.9	2.9	2.9	2.9
<u>A/ Expenditures in millions of dollars from all funds.</u>								
<u>B/ May reflect rounding differences.</u>								
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. Successful Overall Fishery Program	23	22	22	22	22	22	22	22
2. Enjoyment of Hawaii's Fishery and Aquatic Resources	48	49	50	51	51	51	52	52
3. Vibrant Fishery Economy	95	95	95	95	95	95	95	95
4. Sustainable Suppt of Cultural/Native Hwn Prac/Actv	1	1	1	1	1	1	1	1
5. New Tech for Rearing/Restocking Impt Species	3	3	4	4	4	4	5	5
6. Sufficient Efforts at Public Outreach	2	2	2	2	2	2	2	2

TECHNOLOGY

The objective of this Level II program is to support statewide economic development and diversification and increase productivity and competitiveness of all economic sectors in the State by facilitating growth and development of technology businesses and related industries as well as Hawaii-based industries which focus on sustainable resources.

Four Level III programs within the DBEDT, comprise the Technology program: Strategic Industries Division (BED 120), High Technology Development Corporation (BED 143), Hawaii Strategic Development Corporation (BED 145), and Natural Energy Laboratory of Hawaii Authority (BED 146).

Strategic Industries Division

The objective of the Strategic Industries Division (SID) is to achieve growth, diversification, and long-term stability of the State's economy by facilitating sustained development of Hawaii's technology-based strategic industries; implement *Energy for Tomorrow* program. These include:

- Stimulate economic development and diversification by developing and marketing technologies and technology-based enterprises and resource-based industries, with a strong export focus.
- Increase economic efficiency and productivity, and business competitiveness by promoting and facilitating energy conservation and efficiency, and recycling and re-manufacturing.
- Reduce risks to Hawaii's economy by developing cost-competitive indigenous sources of energy to reduce dependence on imported fossil fuels, which increases economic productivity.
- Increase energy security for the State by developing comprehensive plans to meet State energy policy objectives and contingency plans to protect critical energy systems and effectively deal with energy crises.
- Increase non-state funding support to accomplish the foregoing program objectives, which support technology and resource-based economic development.

SID implements responsibilities of the State Energy Resources Coordinator (ERC) by conducting energy planning and policy development activities in energy efficiency, renewable energy, and clean fossil fuel energy resources, including maintaining energy emergency preparedness plans and procedures and participating in relevant legislative and administrative policy proceedings.

SID implements and coordinates the private and public sectors' implementation of *Energy for Tomorrow (EFT)* program, by initiating and engaging in partnerships in successful program activities and projects under the six major component of the *EFT* strategic action plan:

1. Savings Through Efficiency
2. Independence Through Renewable Energy
3. Fuels Through Farming
4. Security Through Technology
5. Empowering Hawaii's Consumers
6. Preserving Hawaii's Energy Security

Energy is essential to the economy and our modern, high technology lifestyles. This complexity and interrelatedness of Hawaii's energy systems and markets is reflected in the comprehensive scope and integrated nature of the *EFT* plan.

Recognizing Hawaii economy's extreme overdependence on increasingly higher-priced imported crude oil with the State's import sources increasingly concentrating in the Middle East, the Governor requested that ERC and SID develop a set of bold new strategic energy policy initiatives designed to address the risks and take advantage of opportunities of Hawaii's energy situation. These initiatives are designed to fundamentally change how Hawaii consumes energy, by accelerating the production of renewable and alternative energy, increasing energy efficiency, developing and adopting new technologies and ensuring the State's energy security, which comprise the net goals of the landmark energy statutes enacted in 2006.

SID is funded by the U.S. Department of Energy (USDOE) to support the federally established State Energy Program. The USDOE also has provided a number of grants in support of specific programs of particular interest to the USDOE. These special project grants were awarded to Hawaii only after nationally competing for these project funds.

Most recently, SID has coordinated Lead by Example. This program is focused on energy efficiency for State agencies as articulated in Act 96, SLH 2006, and Administrative Directive 06-01, Energy and Resource Efficiency and Renewable Energy and Resource Development. We are in Phase I of Lead by Example. Phase I is focused on setting the foundation for a course change in agency operations for energy efficiency. Setting the foundation includes a number of goals: developing and working through a framework for communication, planning, and implementing energy efficiency; developing tools for agencies to use to achieve energy efficiency; developing data baselines; and setting energy-savings targets. The participants include all state agencies, including attached agencies.

SID implements special energy and sustainable projects awarded through national competitive solicitations. SID promotes energy efficiency through: the Model Energy Code; performance contracting in State facilities that use private partnerships to install cost-effective, energy-efficient equipment; county energy efficiency programs; consumer education; partnerships with professional builders and designers; and recycling and reuse to encourage remanufacturing and recycling businesses.

SID develops programs to increase commercial activities in technology sectors with high growth potential. These sectors include, but are not limited to, dual-use, life sciences, astronomy and aerospace, and ocean science and technology.

SID promotes increased exports of products and services from Hawaii's technology-based enterprises and resource-based industries into the Asia/Pacific Region by facilitating entry into new overseas markets through trade missions, personal contacts, and analyses of markets.

SID leads the department's efforts to link the University of Hawaii (UH) with the Hawaii business community, to increase the University's ability to create and grow businesses from the research and innovation coming from the University and to maximize its potential as an economic engine for Hawaii. In

addition, SID assists the University to obtain major federal funding for programs benefiting Hawaii's economy.

High Technology Development Corporation (HTDC)

HTDC was established by the 1983 Legislature in recognition of the potential economic impact of technology on the State with the objective of providing a means to facilitate growth of the technology industry and assisting Hawaii's entrepreneurs and fledgling start-ups.

Statutory duties of the corporation (Chapter 206M, HRS) include, but are not limited to:

1. Developing high tech industrial parks as innovation centers.
2. Providing support and services to high tech companies.
3. Collecting and analyzing information on the State of commercial high tech activities in Hawaii.
4. Promoting and marketing Hawaii as a site for commercial high tech activity.
5. Providing advice on policy and planning for technology-based economic development.

HTDC's activities are focused on the following:

a) Incubation Program

HTDC operates the Manoa Innovation Center (MIC) and Maui Research & Technology Center (MRTC). Within each center is an incubation program that provides pre-qualified companies with management, marketing, technical expertise, and business administrative support. Companies are also educated on financing and venture capital opportunities, and networking opportunities. The program objective is to increase the chance for succeeding in a highly competitive technology environment and to carve out a sustainable niche appropriate for Hawaii's business and cultural environment. A virtual incubation program is also available to companies that do not desire to physically reside at the incubation

centers, and for developing the representative office opened in Beijing, China. HTDC also partners with the UH at Hilo by overseeing programs at the Hawaii Innovation Center at Hilo (HICH).

HTDC continues to explore opportunities to develop a life science incubation and innovation center in Kakaako to support the UH Medical School and Research Center, as well as other programs.

b) Facilitating Federal and Dual-Use Opportunities

The Small Business Innovation program helps to develop Hawaii's scientific and research expertise that is focused on commercialization opportunities. The Hawaii Center for Alternative Transportation Technologies is funding various transportation research projects for the U.S. Air Force on Hickam Air Force Base in the area of alternative energy sources with dual use applications. The Manufacturing Extension Partnership program, funded by the National Institute of Standards and Technology, assists small companies to become more globally competitive by improving their business operation and expanding business through new product development.

c) Marketing and Promotion

"www.hitechhawaii.com" is a one-stop informational web portal for visitors and local companies to assist with marketing of Hawaii's high tech capabilities, information on State tax incentives and links to a calendar of tech-related events, tech-job opportunities, a directory of tech companies in Hawaii, links to other technology resources statewide, and help sites to establish business in Hawaii.

d) Assess the status of high tech in Hawaii and provide support to technology

HTDC continues the biennial assessment of the local technology industry to determine current needs, trends, and policies; promotes and supports initiatives at the Legislature that enhance the business climate for the high tech industry; and continues efforts to provide skilled tech workers by recruiting former Hawaii residents through the TechJobsHawaii.com website.

e) Enhance Hawaii's educational system and workforce

HTDC coordinates with other organizations that directly impact these essential support functions. Education and workforce development enables high tech companies to attract and recruit a top-notch workforce. HTDC is coordinating meetings amongst organizations key to assessing the feasibility of a science and technology charter school specific to HCR 218. An objective of the charter school is to reinvent education for a tech-based economy by attracting students interested in these fields and provide a solid foundation for them to later pursue careers in these fields; thus, building a steady pool of tech-qualified workers locally.

Hawaii Strategic Development Corporation (HSDC)

HSDC provides venture capital funding to emerging and high growth companies by investing in limited partnerships managed by venture capital professionals. HSDC has committed \$16 million to ten investment partnerships and a merchant bank, which to date have invested in 38 firms ranging from basic service industry providers to high technology start-up companies. HSDC's public funds have been leveraged approximately seven times by private sector investment.

HSDC supports DBEDT initiatives of improving the small business environment, enhancing innovation infrastructure, expanding exports and renewable energy sources along with workforce development and urban core development.

Near term objectives include working with DBEDT on the deployment of the Hydrogen Capital Investment Special Fund and focusing on entrepreneurial development programs.

Natural Energy Laboratory of Hawaii (NELHA)

NELHA operates facilities at Keahole Point on the Kona coast of the Big Island whose purpose is to enhance economic development and diversification for the State. The 870-acre facility, the second largest industrial park in Hawaii, is unique in its ability to supply large, continuous flows of cold, pure, nutrient-rich seawater from 2,000-foot depths at 6°C (43°F) and warm surface seawater at 24.5°-27.5°C (76°-82°F) and from 3,000-foot depths at 4°C (39°F). The 55-inch diameter supply pipeline at 3,000-feet below the ocean surface is the deepest seawater pipe ever deployed in the world's oceans.

Since Keahole Point is the sunniest location in the coastal U.S., NELHA is able to offer tenants a unique combination of ample sunlight, natural temperature differential, and pristine seawater resources for development and commercialization of new technologies in a wide array of fields such as aquaculture, agriculture, ocean sciences, and renewable energy.

NELHA has 37 tenants, including short-term research projects, that employ over 240 people, generating more than \$30 million annual input into the local economy and about \$2 million in tax revenues to the State. These tenants are served by a staff of 21 State employees whose responsibilities include implementation of strategic long-term planning and development, negotiation and management of leases, operation and maintenance of the seawater systems, environmental monitoring, monitoring compliance with permits, maintenance of the mandated Wawaloli Beach Park and Ho'ona Archaeological Preserve, and other vital services to its tenants.

While NELHA continues to be recognized as the world leader in research on Ocean Thermal Energy Conversion (OTEC), NELHA is aggressively moving into other areas of energy research, development, demonstration, and deployment. NELHA tenants are conducting research and development of many technologies, most related to aquaculture using suitable mixtures of cold deep and warm surface seawater that NELHA pumps ashore. Aquaculture products include: *Spirulina*, astaxanthin nutraceuticals from microalgae, sea vegetables such as *Gracilaria* (Ogo), Maine lobster, dungeness crab, abalone, shrimp, oysters (both for food and for pearls), giant clams, aquarium fish, *Hirame* (Japanese flounder), and Halibut (Pacific threadfin). Due to an intense interest in deep ocean water by researchers in Japan, additional innovative uses of the deep cold seawater have been implemented including the desalination and bottling of the water for sale as a "boutique" beverage and for inclusion into health supplements, and other products.

A special fund allows NELHA to retain the fees for land, facilities, and services collected from its tenants which are then used to support operations. In meeting NELHA's goal toward self-sufficiency, NELHA has been gradually raising the price of its seawater. Despite such a price increase, NELHA still finds itself losing money on seawater deliveries due to the more rapid escalation in electricity prices. Included in

the administration budget is \$730,000 in each year of Fiscal Biennium 2007-09 for a water subsidy for aquaculture tenants. This will aid, in an important fashion, the continued development of aquaculture in Hawaii.

NELHA also creates economic opportunities through a federally funded program, the National Defense Center of Excellence for Research in Ocean Sciences (CEROS). Created in 1993 under a \$5 million grant from the Defense Advanced Research Projects Agency, CEROS was transferred in 1995 to NELHA to enhance its ongoing ocean research activities. CEROS solicits and supports innovative technologies for national maritime military applications and sustained technology-based economic development in Hawaii and develops and demonstrates state-of-the-art ocean technologies to address Department of Defense requirements and build residual benefit for the State. Since its inception, CEROS has funded a total of nearly 210 research projects at a value of over \$77.25 million.

Table II-5 shows the operating and capital investment costs and selected measures of effectiveness for the Technology sub-program.

TABLE II-5

INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY

TECHNOLOGY

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
						2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	...	6.1	5.2	...	...	...	...	...
Operating	13.6	24.1	37.3	35.1	35.1	35.1	35.1	35.1
Total ^{B/}	13.6	30.2	42.5	35.1	35.1	35.1	35.1	35.1
<hr/>								
A/ Expenditures in millions of dollars from all funds.								
B/ May reflect rounding differences.								
B. <u>Selective Measures of Effectiveness/ Activity</u>								
1. Increase in Leveraging Public Investment with Private Capital (\$M)	5	0	5	5	5	6	8	9
2. Increase in # of Venture Capital Partnerships Established	0	1	1	2	1	1	2	1
3. Amount of NELHA Tenant Sales (\$M)	52.1	62.0	68.2	75.0	82.5	90.8	99.9	109.9
4. Increase in NELHA Revenues (\$000)	404	607	1,074	1,573	1,446	1,017	899	20
5. # of Companies Assisted (HTDC)	37,758	38,645	59,200	64,000	63,400	66,550	69,850	73,325

WATER AND LAND DEVELOPMENT

The Water and Land Development Level II program focuses on the provision of an adequate water supply and the development of State-owned lands to promote economic development and enhance public welfare. This program provides support to the programs which are designed to achieve the State's economic, agricultural, environmental and social goals, with priority given to State-sponsored projects. This assurance of an adequate supply of water to meet the increasing demands of State-sponsored projects, such as schools and agricultural irrigation systems, are of high priority.

Specific policies pursued by this program are: 1) the development of new water supplies, giving priority support to areas with State demands experiencing critical water problems; 2) investigate and promote development and use of alternative sources of water supply; 3) encourage the conservation and wise use of the water supply; 4) develop water sources and water systems in support of agriculture; 5) promote partnerships and cost sharing in the development of water projects to meet the goals of otherwise competing entities; and 6) support research and new technological advances in the development of alternative water sources.

Table II-6 shows the operating and capital investment costs and selected measures of effectiveness for the Water and Land Development sub-program.

TABLE II-6

INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
WATER AND LAND DEVELOPMENT

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
						2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program</u> ^{A/}								
Capital Investment	10.0	11.0	15.1	8.1	7.8	5.5	...	...
Operating	0.3	0.4	0.8	0.9	0.8	0.8	0.8	0.8
Total ^{B/}	10.3	11.4	15.9	9.0	8.6	6.3	0.8	0.8

A/ Expenditures in millions of dollars from all funds.

B/ May reflect rounding differences.

B. Selected Measures of Effectiveness/
Activity

1. Surface Water Supply Developed (MGD)	0	0	0	0	0	0	0	0
2. Groundwater Supply Developed (MGD)	1	1	1	1	1	1	1	1
3. Water Credits Provided to State Agencies (1000 GALs)	500	500	500	500	500	500	500	500
4. State Lands Developed (Acres)	20	20	20	20	20	20	20	20

SPECIAL COMMUNITY DEVELOPMENT

The objective of this Level II program is to stimulate economic development of specific community districts by planning and implementing community development programs and facilitating capital investment. Two agencies, Hawaii Community Development Authority (BED 150) and Aloha Tower Development Corporation (BED 151), both of which are administratively attached to the DBEDT, comprise this Level II program.

Hawaii Community Development Authority (HCDA)

HCDA was established in 1976 to plan and implement initiatives that increase economic, social/cultural, and environmental value in community development districts as assigned by the Legislature. HCDA plans and implements capital improvement projects to upgrade infrastructure and develop public facilities. HCDA also implements long-term planning initiatives to support the development of mixed-use communities that strengthen and diversify Hawaii's economy while enhancing the quality of life for Hawaii's people. In sum, with the support of the Legislature and stakeholders, HCDA strives to create *better communities for tomorrow*.

Following an intensive five-year planning process, the Kakaako Community Development District Plan was adopted by HCDA in 1982. This plan serves as the basis for guiding both public and private development activities in revitalization of Kakaako. This includes private development projects, district-wide improvements to the infrastructure systems, parks, public parking garages, waterfront-related improvements, and other community facilities.

Act 184, SLH 2002, designated the former Barbers Point Naval Air Station in Kalaeloa as a new Community Development District under HCDA. Until passage of this legislation, the Barbers Point Naval Air Station Redevelopment Commission (BPNAS-RC) was the entity responsible for implementing redevelopment of the former 3,600+ acre base. However, citing HCDA's proven redevelopment capabilities, the Legislature transferred redevelopment responsibilities from BPNAS-RC to HCDA, and repealed BPNAS-RC's enacting legislation, effective July 1, 2002. Recognizing Kalaeloa's development potential, HCDA has adopted a Master Plan to transform the District into a model community that will create new jobs, nurture new

businesses, and provide much-needed housing and public facilities for the people of Hawaii.

Current major agency activities include:

- Administration of land use, zoning, and other regulatory provisions of the Kakaako Plans and Rules relating to all development activities in Kakaako.
- Implementation and identification of Kakaako improvement and public facility projects.
- Forming an Advisory Working Group, toward the redevelopment of the Kakaako Waterfront to create a special people-oriented gathering place that will comply with the requirements of Act 231, SLH 2005, to establish a State Cultural Public Market within the Kakaako Makai Area. Also, effective July 1, 2007, assuming management and operations of Kewalo Basin from DOT-Harbors; thus a User Group and transition plan have been adopted and is being implemented.
- Revising, with stakeholder input, the Kakaako Mauka Area Plans and Rules to encourage private sector development activities and maximize attainment of overall community development objectives.
- Promulgating, with stakeholder input, Hawaii Administrative Rules and various infrastructure planning efforts to implement necessary improvements and development of the Kalaeloa district.

Aloha Tower Development Corporation (ATDC)

The ATDC is charged with overseeing developments within the waterfront area of the Honolulu downtown business district. The jurisdictional boundary includes lands adjoining Piers 5 and 6, and Piers 8 to 23 in Honolulu Harbor.

The ATDC is also authorized under its enabling statute, HRS, Chapter 206-J, to plan, develop or redevelop lands located seaward of Nimitz Highway between Pier 4 and the Honolulu International Airport. In FY 06, the ATDC began working in partnership with the Department of Transportation, Harbors Division (DOT-H), to expedite implementation of selected harbor infrastructure projects in Honolulu Harbor.

ATDC has the statutory mandate of redeveloping, renovating, and/or improving the Aloha Tower Complex to: (1) strengthen the international base of the community in trade activities; (2) enhance the beautification of the waterfront; (3) improve modern maritime uses in concert with the DOT; and (4) provide for public access and use of waterfront property.

Table II-7 shows the operating and capital investment costs and selected measures of effectiveness for the Special Community Development sub-program.

TABLE II-7

INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
SPECIAL COMMUNITY DEVELOPMENT

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
						2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program^{A/}</u>								
Capital Investment	2.6	2.7	9.2	2.8	1.5	...	...	...
Operating	2.1	3.2	2.5	2.5	2.5	2.5	2.5	2.5
Total ^{B/}	4.7	5.9	11.7	5.3	4.0	2.5	2.5	2.5
A/ Expenditures in millions of dollars from all funds.								
B/ May reflect rounding differences.								
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. New Private Development in Kakaako Comm Dev (\$M)	244.1	175	134	162	200	200	100	100
2. New Private Development w/in Kalaeloa (\$M)	7.5	0	15	20	20	20	20	20

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

The objective of this Level II program is to support economic growth by increasing the supply of workforce and affordable housing and preserving the existing inventory of affordable housing. The Hawaii Housing Finance and Development Corporation (HHFDC) (BED 160), which is administratively attached to the DBEDT, comprises this Level II program.

Hawaii Housing Finance and Development Corporation

Hawaii must have an adequate supply of affordable workforce housing in proximity to employment, public transportation and community facilities in order for the State economy to thrive. The long-standing lack of housing affects quality of life and hinders economic expansion.

According to the 2003 Hawaii Housing Policy Study, in 2003, there was a statewide shortage of approximately 30,100 residential housing units. From 2003 to 2007, nearly 17,000 rental units and 13,000 for-sale units were projected to be needed for lower income and gap group households. (An update to the 2003 study is presently underway.) However, economic market forces favor development of housing at its highest profit potential. Thus, there are large gaps in the development of housing at affordable levels. As housing demand outpaces supply, median resale prices in all counties have risen and much of Hawaii's workforce continues to be priced out of the market.

Simultaneously, the stock of existing rental units affordable to lower-income households is being lost to redevelopment, gentrification and deterioration. Large-scale properties, such as Kukui Gardens, developed over 30 years ago under federal programs are reaching loan maturity and may be placed on the open market.

Market stresses due to our success as a prime tourist destination place further strain on our housing market. Anecdotally, much of the new development is being driven by the second home market. While the rapid increase in sales to non-residents may be a short-run aberration generated by economic growth on the Mainland, some observers believe that the critical mass of second homes and affordability of second homes in Hawaii will cause a long-range increase in the number of housing units not available to local residents.

Development of housing in urban areas and other areas targeted for economic growth.

Urban core areas often contain historically rich, demographically diverse, and culturally significant assets that contribute to the quality of life. Urban sprawl degrades quality of life through the reduction of open space/agricultural lands and increased traffic congestion that results in the demand for greater highway capacity and associated resource intense consumption.

Older urban core areas are in need of revitalization to bring back vibrancy and economic prosperity. In particular, infrastructure systems will need major upgrades or expansion to accommodate higher density development in these areas. The constant presence of people (neighborhoods) is key to urban revitalization; where residents "own" the community and commit to its success.

Affordable and accessible workforce housing, along with a trained and qualified workforce, are essential ingredients to strengthen and grow economic activity and opportunity in Hawaii. The inability of working families to purchase or rent a decent home in, or close to, the communities where they work is a growing problem. On the Big Island, employees are on the road for four hours commuting from their homes in Hilo to their jobs in Kona and back. Some hotel workers sleep in their autos to avoid the long commute. Concomitantly, employee productivity is affected, as well as the visitor experience as the level of service declines.

Without government intervention, the market alone will not deliver the necessary affordable workforce housing to ensure the State's current and long-term prosperity. The HHFDC is in the unique position to anticipate and plan for the right kind of interventions (i.e., have a ready development toolbox that includes a wide range of tools ranging from incentives, such as tax credits and low cost financing, to disincentives, such as developer exactions) to be utilized depending on market conditions, and implemented in a timely and proactive manner.

Table II-8 shows the operating and capital investment costs and selected measures of effectiveness for the HHFDC sub-program.

TABLE II-8
INVESTMENT AND OPERATING COSTS
AND
MEASURES OF EFFECTIVENESS/ACTIVITY
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

	F i s c a l Y e a r s							
	Actual 2005-06	Est. 2006-07	Rec. 2007-08	Rec. 2008-09	2009-10	P r o j e c t e d		
						2010-11	2011-12	2012-13
A. <u>Costs of the Recommended Program^{A/}</u>								
Capital Investment	2.5	...	...	...	...	...
Operating	56.1	56.1	56.1	56.1	56.1	56.1
Total ^{B/}			58.6	56.1	56.1	56.1	56.1	56.1
<u>A/ Expenditures in millions of dollars from all funds.</u>								
<u>B/ May reflect rounding differences.</u>								
B. <u>Selected Measures of Effectiveness/ Activity</u>								
1. # Of Homebuyers Assisted	...	80	280	140	350	560	530	545
2. # Of New Rental Units	...	352	296	293	567	575	1050	810
3. # Of Existing Afford Rental Housing Units Preserve	...	70	154	50	50	50	50	50
4. # Of Lease Rents Renegotiated	...	1	0	0	0	0	0	0
4. # Of Single Family Leashold Lots Convert to Fee Simple	...	0	1	0	0	0	0	0

III. PROGRAM CHANGE RECOMMENDATIONS

AGRICULTURE

All departmental programs in the Economic Development program structure have been consolidated into AGR 192 to provide an objective that focuses on maintaining the agricultural sector of the State's economy in a strong and competitive condition through our various program activities and services.

Fisheries and Resource Enhancement

An increase in the fiscal biennium budget is being requested to restore to former levels, a technical pool of staff used to support and assist in the maintenance and operation of the program's activities. Currently, this technical pool is understaffed.

Forest Resource Management and Development

The biennium budget includes: (1) increases in special fund ceiling for watershed, forest reserve management, forest product development programs, management of threatened and endangered species in forest reserves, control of invasive species in forest reserves, and assistance to private landowners for forest and stream restoration are requested. Special funds derived from increased sale of forest products and conveyance tax revenues will support needed enhanced management of forest reserves and reforestation programs throughout the State; (2) five new temporary field positions are requested for commercial and native forest reforestation projects on Hawaii; a new temporary biologist position is requested for a habitat restoration project on Kauai, and four invasive species technician positions are being transferred to forest reserve management special funds. The staffing will provide manpower to restore native plant and wildlife habitat in forest reserves, reforest degraded native areas, replant harvested commercial areas, and control damaging invasive species in forest reserves.

Water and Land Development

Operating budget request include positions (geologist, engineer and clerk-typist) with related funding (special funds) to restore the mineral resources/geothermal program. The Mineral Resources Program and staffing within DLNR was

abolished in 1995 in response to budget reductions. Statutory, regulatory and resource management responsibilities remain and are performed on an "ad hoc" basis by other DLNR staff. Increased activities by Puna Geothermal Venture and inquiries by other potential developers necessitate staff to address this program area. Geothermal royalties are collected by DLNR. The requested emergency reserve will allow for the hiring of consultants or specialists should needs arise. Geothermal development in Hawaii has contributed to greater energy diversification of the State. However, cultural, health and environmental concerns related to the development of geothermal energy must be properly addressed and managed to protect the health and safety of the public and to ensure the continued viability of the resource for the future.

Capital Improvements Projects requests include projects for North Kona Water System Improvements, Hawaii and Waimea Wells, Hawaii. These projects will explore for new water sources, develop wells (install pump, controls and connecting pipelines) to connect the wells to the existing water system and make select pipeline, reservoir or other water system improvements to support State-sponsored projects in the respective areas.

IV. EMERGING CONDITIONS, TRENDS, AND ISSUES

Outlook for the Economy

Despite modest visitor growth expected for 2006, prospects for Hawaii's economy for the next several years continue to appear positive. Federal spending remains strong. Despite some slowdown in residential permitting, total value of private building permits continues to grow, indicating more construction in coming quarters.

Through the first nine months of 2006, the statewide value of total private building permits increased 9.7% to more than \$2.7 billion. The value of government contracts awarded totaled \$692 million statewide, a 9.2% increase from 2005. The ongoing, \$2.3 billion military housing privatization initiative will also add to positive growth in the Hawaii construction industry in coming years.

Projections of economic growth for the Mainland U.S and Japan, Hawaii's two primary markets, are reasonably strong for 2007. The November 2006 Blue Chip Economic Consensus Forecast expects the 2006 real GDP growth to be 3.3% for the U.S. and 2.7% for Japan. In 2007, GDP growth is expected to be 2.5% for the U.S. and 2.2% for Japan. The U.S. consumer price index (CPI) is expected to increase 3.4% in 2006 and 2.3% in 2007.

Compared with the unusually high growth rates of the last several years, some moderation in the rate of economic activity is expected over the next two years. More moderate growth will tend to lower the upward pressure on consumer prices and help ease the tight labor market. The DBEDT expects visitor arrivals to increase by 2.5% in 2007 and 2.3% in 2008. Visitor expenditures should grow 6.0% in 2007 and 5.5% in 2008.

Personal income in current dollars is also forecast to increase 6.0% in 2007 and 5.5% in 2008. Real personal income (inflation-adjusted) is expected to grow 2.3% in 2007 and 2.2% in 2008. Hawaii Consumer prices (a measured by the Honolulu Consumer Price Index, CPI-U) are expected to increase an average 3.6% in 2007 and 3.2% in 2008. Total wage and salary job growth is expected to be 1.5% in 2007 and 1.2% in 2008.

Expansion of Hawaii Exports

It is absolutely essential that Hawaii begins to expand exports and it is the perfect time to do so. According to the 2005 National Export Strategy, "the macroeconomic environment around the world has shifted in favor of U.S. exporters. As a result, we are seeing the kinds of opportunities for U.S. exporters that we have not seen in many years. The world economy grew by an estimated 5% in 2004 and is expected to grow by another 4% in 2005; these are above historical averages. Domestic demand is driving this growth in many countries. These factors and other macroeconomic fundamentals mean that there will be more opportunities for U.S. exports and that U.S. companies may enjoy the kind of competitive pricing in many markets that they have not seen for many years.

We do not know how long these market conditions will last. What we do know is that this is an important window of opportunity for U.S. companies to recapture export market share around the world. It is imperative that we marshal our

efforts to inform the U.S. business community-exporters as well as those who have not yet entered the export arena-of this unique moment."

Attracting foreign investment, facilitating export promotion, and reduction of barriers and costs associated with international trade are all integral to economic diversification efforts and the expansion of exports. The FTZ9 plays a major role in this regard. FTZ sites throughout Hawaii account for over 50% of all product exports from Hawaii.

Tourism

For more than three decades, tourism continues to play a major role in the economic health of the State. Presently, it remains Hawaii's primary economic engine. While the State strives to achieve greater economic diversification, tourism will continue to play a key role in the State's economy in the future. Hawaii has a competitive advantage over other destinations; its culture, environment, climate, diversity, and history make Hawaii one of the most preferred destinations. However, competition is growing as newer destinations are opening and travelers want to travel to places they have never visited. Proper asset management must be established to ensure that Hawaii's tourism product remains vibrant and its culture intact.

It is the challenge of the HTA not only to provide economic stimulus to the state economy, but to also consider the needs of future generations. The groundwork that is being developed will be the foundation for tomorrow's tourism industry. This foundation must be appropriately designed and structurally sound so that it can provide stimulus today, and adequate support in the future.

Forest Resource Management and Development

A new, moderate to large scale integrated forest industry supplied by locally-grown hardwoods is emerging in Hawaii, including lumber, veneer and export wood chips for the world paper industry. An increased focus on fossil fuel reliance and a concurrent interest in improving energy self-sufficiency has increased interest in wood biomass to fuel electrical generation facilities.

Reforestation of degraded forest and pasture areas managed by the department with koa and other native forest species is needed. Establishment of commercial koa forests on departmental lands will provide important demonstration of appropriate management techniques for the private sector. Commercial koa forests will also provide significant revenue that will both perpetuate the management practice and support widely enhanced forest reserve management.

Fisheries and Resource Enhancement

Increasing population and associated burdens will increase demands placed on natural resources. Overuse will continue to degrade the quality of those resources. Non-consumptive activities increasingly challenge the norm of harvesting fishes for commercial, recreational, and subsistence purposes. Continued degradation will leave a poor legacy for future communities. Specifically, sustainable fish populations, healthy coral reefs, quality beaches, scenic open coastal areas, good coastal water quality are being degraded and are not being sufficiently protected.

Water and Land Development

On the neighbor islands, the program will continue its water development activities and its search for new water sources in order to fulfill the water needs of State-sponsored projects. The program maintains contact with the various State departments in order to anticipate their water needs, statewide. Trends to locate projects in areas where water sources are not cheaply or easily accessible pose challenges.

On Oahu, the Honolulu Board of Water Supply (BWS) has discontinued its policy in which the State was treated like a large developer and must develop water sources to meet the needs of its projects. The consequence of this policy change is that State projects on Oahu requiring water must budget for full payment of Water System Facility Charges to be paid to BWS. The program will work with the various State agencies with projects on Oahu regarding the BWS' policy change to ensure that adequate funds are budgeted within their individual projects.

HCDA - Kakaako Community Development District

With respect to State lands in Kakaako, HCDA continues to: monitor the population base for development of a school adjacent to Mother Waldron Park; participate with the High Technology Development Corporation in responding to House Concurrent Resolution (HCR) 218, H. D. 1, adopted by the 2006 Legislature; stabilize the historic Ala Moana Pump Station; coordinate with the UH and Office of Hawaiian Affairs on their respective plans; and work, with a soon-to-be-established Advisory Working Group, toward the redevelopment of the Kakaako Waterfront to establish a special people-oriented gathering place that will comply with the requirements of Act 231, SLH 2005, to establish a State Cultural Public Market within the Kakaako Makai Area.

Additionally, the State DOT-H has informed HCDA that, effective July 1, 2007, it will relinquish jurisdictional and management responsibilities at Kewalo Basin. It had been contemplated that the selected developer under the Kakaako Waterfront Request for Proposal (RFP) would be assuming managerial duties coinciding with the turnover. However, the RFP was terminated by the Authority on June 7, 2006. DOT-H has still indicated that they will relinquish control of Kewalo Basin as planned, thus HCDA is in the process of developing a transition plan and adopting Hawaii Administrative Rules to operate this public facility.

HCDA continually re-evaluates and revises the plans and rules to adapt to changing economic and social factors. Underway, and due for completion within the biennium, is a major overhaul of the Kakaako Mauka Area Plan and Rules to incorporate principles of "smart growth" that promote a mixture of uses, a variety of transportation options (walking, bicycling, public transit), and help achieve Kakaako's vision of a "live, work, play, learn, visit" model community; be sensitive to, and address the needs of, small lot owners; and identify ways to improve the reserved housing program.

HCDA - Kalaeloa Community Development District

HCDA's functional tasks in Kalaeloa will be largely the same as its tasks in Kakaako, except that most of the land in Kalaeloa will be owned by various government entities. Approximately half of the Navy-retained lands and some of the lands owned by the Department of Hawaiian Home Lands will likely be available for private development. The

landownership scenario presented in Kalaeloa calls for HCDA to focus its efforts on facilitating and coordinating redevelopment efforts by, and among, the various stakeholders.

A 20-year horizon Kalaeloa Master Plan was approved in August 2006 and now must be implemented. The next steps include promulgation of Hawaii Administrative Rules and various infrastructure planning efforts. At the same time, a litany of life safety needs have been identified in the District that are critical to counteract the real and perceived lack of federal, State, and county government commitment to the area. Further, given the proximity of Kalaeloa within the Ewa/Leeward region, development strategies involve highlighting potential opportunities in Kalaeloa to attract developer interest in high-tech, alternative energy, research, transit, and transit-oriented development.

Redevelopment efforts in the past have been complicated by discussions regarding the potential basing of an aircraft carrier at Pearl Harbor. HCDA staff believes that the Master Plan can accommodate such activity with the caveat that it depends on the kinds of aircraft intended to be utilized and the impacts of such on the surrounding community.

In Kalaeloa, a large part of HCDA's role will be to coordinate the timing of redevelopment projects with the various stakeholders to maximize the efficacy of the overall development program. Additionally, community support is central to any successful development project so utilizing HCDA's unique statutory authority to expedite development programs as well as maintaining close contact with community via HCDA's recently established Kalaeloa Field Office in order to take advantage of such grassroots interaction.

Aloha Tower Development Corporation (ATDC)

In July 2006, the ATDC Board of Directors approved development rights to UC URBAN to develop a commercial mix use condo-hotel project at Piers 5 & 6 in the Aloha Tower Complex, subject to successful negotiation of a Development Agreement and Ground Lease. The project will not require the infusion of any State funds and meets the ATDC's objective of attracting investment capital to the downtown waterfront. ATDC will work towards execution of the Development Agreement and Ground Lease and commence construction of the project in the fiscal biennium.

Another private investment in the Aloha Tower Complex Area is a project by New World Divers to construct a world-class diving facility off the water's edge at Piers 5 and 6. Commencement of construction is targeted for May 2007.

Update of the development and financial plan for ATDC is another objective for the fiscal biennium. In furtherance of this goal, the ATDC retained a planning consultant in FY 07 to begin a comprehensive review of the ATDC Development Plan and the Hawaii Administrative Rules. Public outreach and community planning on the preferred development plan for the area and the drafting of updated plans and rules will be an implementation objective in the upcoming fiscal biennium.

The ATDC partnered with the DOT-H in FY 06 and was assigned the lead to expedite implementation efforts to develop selected harbor infrastructure projects in Honolulu Harbor. The Hawaii Harbors Task Force initiated several short-term projects targeted for completion in FY 07, although redevelopment of the former Kapalama Military Reservation into the new Kapalama Container Terminal is expected to continue beyond FY 07. Continued funding and staffing authorizations for the partnership will be necessary to continue this work in the fiscal biennium.

Performance Results Achieved in FY 06 and FY 07

Aloha Tower Project Area

- In April 2005, the Aloha Tower Marketplace emerged from a three-year bankruptcy with the sale of its assets to AHI Aloha Associates. AHI assumed the ground leases and made payment to creditors. The ATDC pre-petition debts and attorney fees were completely satisfied.
- The Aloha Tower Marketplace showed improvement attaining near 100% occupancy in FY 06 and tenant revenues up approximately 9.9% over revenues generated in 2004. Tenant revenues for FY 07 as of November 2006 continued to climb, performing 9.5% above 2005 levels.
- The ATDC and DOT-H executed a Memorandum of Understanding to resolve ground lease rent payments for the Aloha Tower Marketplace.

- The ATDC approved development rights to UC URBAN in July 2006 for the development of a commercial mix use condo-hotel project at Piers 5 & 6 in the Aloha Tower Complex, subject to successful negotiation of a Development Agreement and Ground Lease. The documents are being negotiated and expected to be completed in the first quarter of 2007. ATDC retained Special Legal Counsel and a real estate appraiser/real estate consultant to assist in negotiating the project documents.
- The ATDC worked with New World Divers to construct a world-class diving facility off the water's edge at Piers 5 and 6. Pre-development requirements were completed in 2006 and the Developer is currently working on finalizing financing commitments. Commencement of construction is targeted for May 2007.
- The ATDC retained a planning consultant to begin a comprehensive review of the ATDC Development Plan and the Hawaii Administrative Rules. Planning charettes are to begin in the first quarter of 2007.

V. SELECTED PROBLEMS FOR POSSIBLE STUDY

Forest Resource Management and Development

Declines in traditional sources of federal grant funding requires the program to rely more on State and forest product revenue sources. Declining federal grant programs and funding sources impact the program both operationally and from a staffing perspective. If this declining trend continues, important program staff positions and functions that are currently federally funded will be at risk. Evaluation of whether current State general fund budgets for program staffing meet existing payroll obligations and avoidance of over-reliance on special funds to cover future payroll shortfalls is merited.

Fisheries and Resource Enhancement

The increasing demands on finite natural resources should be focused on with study to elucidate possible avenues to curb degradation. Specifically, visioning, strategic planning, sustainable fisheries planning, cost-benefit analysis of government spending on resources management vs. benefits,

limited access, etc., can be used, and outcomes can be evaluated in terms of increasing program effectiveness.

Water and Land Use Development

The need for this program cannot be overemphasized since the proposals to boost the State's economy by promoting State-sponsored construction, such as schools, will increase the demand on our finite water resources. We must continuously reevaluate the methods of maximizing the yields of existing sources while also focusing on alternative sources of water.